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This report was prepared by the Farm Production Economics Division, Economic Research Service. It is based heavily on information solicited from the district Farm Credit Banks, the State offices of the Farmers Home Administration, the agricultural economists of the Federal Reserve System, the Agricultural Committee of the American Bankers Association, the farm-mortgage departments of several life insurance companies in various parts of the United States, and the field staff of the Farm Production Economics Division. Most of the reports from these correspondents were written in November and December of 1969 and included pertinent information on the financial condition and future prospects of farmers across the Nation. The reporters are uniquely qualified to render firsthand "grass roots" opinions. The authors and readers of this Outlook publication are indebted to these cooperators for their excellent contributions.

# 1970 AGRICULTURAL FINANCE OUTLOOK

Approved by the Outlook & Situation Board, January 28, 1970

## SUMMARY\*

Farmers will further expand their use of credit in 1970, mainly due to greater dependence on purchased inputs and increased expenditures for farm enlargement. As 1970 began, farm debt outstanding was 6 percent above a year earlier.

Interest rates on farm loans are near record highs in many parts of the Nation. Rates may ease somewhat in the second half of 1970; however, even by yearend, they will probably still exceed early 1969 levels.

Funds for short- and intermediate-term farm loans in 1970 will be more adequate than funds for long-term loans. Loans will be harder to qualify for. Lenders reportedly will weigh managerial ability and production capacity more heavily than in the past. Life insurance companies have severely reduced their investments in farm mortgages because of better investment opportunities elsewhere. However, if their nonfarm investment opportunities decline during 1970, their activity in the farm mortgage credit field could pick up.

Farmers entered the new year in generally better financial condition than a year earlier. Producers of livestock and livestock products made the sharpest improvement. Realized gross farm income for 1969 reached \$54.6 billion. And despite increased production expenses, realized net farm income climbed \$1.2 billion above 1968 to \$16 billion. Last year farmers used a larger than usual portion of their earnings and reserves for operating expenses and capital outlays to reduce borrowings at high interest rates.

Proprietors' equities in farm assets rose 2.5 percent last year to a record \$249 billion at the beginning of 1970. The value of farm assets rose 3 percent to \$307 billion and farm debt amounted to \$58 billion--up 6 percent.

The rise in the value of farmland and buildings slowed from 5 percent in 1968 to about 3 percent in 1969. The increase in 1967 was 6 percent. Slower growth the last 2 years reflects a softening and, in some areas, declines in farmland prices, particularly in the second half of 1969.

The value of farm physical assets other than real estate was nearly \$75 billion at the beginning of 1970, up 4 percent in the past year. Financial assets went to almost \$24 billion--a 3-percent increase.

The supply of funds in 1969 for farm-operating loans was adequate in most areas. There was some curtailment of farm-mortgage loan funds, especially by life insurance companies. Interest rates climbed as much as 1-1/2 and 2 percentage points during 1969. By the end of the year interest rates were commonly 7-1/4 to 9 percent on farm-operating loans and ranged mostly from 8 to 9-1/2 percent on new farm-mortgage loans. The higher rates probably kept farm debt from increasing further.

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\*The summary of this report was release on January 28, 1970.

## OUTLOOK FOR 1970

Net farm income will be about the same in the first half of 1970 as in the same period of 1969, according to correspondents' opinions requested annually by the Department. These opinions aid in the analysis used in preparing this farm financial outlook statement. The increase in receipts that occurred in the second half of 1969 resulted mostly from booming prices for livestock and livestock products. No such surge in livestock receipts is foreseen this year but they are expected to rise from the 1969 level.

Demand for livestock and their products will probably continue strong well into 1970 but larger supplies later in the year may dampen prices. Crop receipts the first 6 months of this year may drop due to the smaller 1969 wheat crop and lower prices for soybeans. The state of the general economy and the 1970 production of livestock and crops will in large measure determine gross cash receipts the second half of 1970. Reporters expect farm expenses to increase but probably not at last year's rapid pace. Off-farm income will likely rise further as a share of total farm family income.

Farmers entered 1970 in a generally improved financial position. Livestock, poultry, and dairy producers were in better shape than many cash crop farmers, especially those outside the Corn Belt. Correspondents mentioned that farmers often dipped deeply into their financial resources last year for operating expenses rather than borrow at high interest rates.

The rapid rise in farmland prices of the last several years will not be evident in 1970, in reporters' opinions. A slight increase is expected in a few areas while in others the chances are for a leveling off or even a slight downtrend. As a result, gains in farmers' equity position of the last several years may be slowed.

Farmers will require more credit in 1970 to meet higher operating costs. Certain capital outlays will be necessary to replace wornout or obsolete machinery, although reporters detected no plans to buy much except essential machinery and equipment. Farm enlargement via purchase rather than rent will also call for extensive credit. But reporters indicated that funds will likely be increasingly tight for farm credit. Established customers and top operators will be served first. Funds for short-term loans will be in larger supply than funds for long-term loans. Many banks are reportedly reluctant to make many farm-mortgage loans, and when they do make them, repayment periods are usually not longer than 10 years. Farm-mortgage lending by life insurance companies may remain at a greatly reduced level. This leaves the bulk of such lending to the Federal land banks and individuals.

Correspondents expect interest rates on farm loans to remain at or near present rates through most of 1970. They foresee little if any downward movement before midyear. Although credit in the farm sector is not tied as closely to the Nation's economy and central money markets as financing in some other important economic sectors, there is a connection. And, 1970 farm interest rates will be more influenced by the direction of the general economy than in the past. The tie between the farm credit market and the central money market becomes closer as farmers' financial needs outgrow the local money markets.



Total cost of farm credit in 1970 will increase. Loans contracted in 1970's early months, when most operating loans are made, will be at rates up to 2 percentage points higher than a year earlier. Any drop in interest rates later in the year will likely be to a level above early 1969 rates.

The lenders who responded stated almost unanimously that 1969 loan repayments were good and delinquencies were few. They did not expect more than the usual number of farm borrowers to be in a financial bind in 1970. The Farmers Home Administration foresees an upswing in loan applications in some States due primarily to the more restrictive policies of other conventional lenders.

## FINANCIAL DEVELOPMENTS IN 1969

Farmers faced many financial uncertainties last year. Increasing interest rates, tight money, softening of land values in some areas, growing labor shortages, and uncertainties regarding the Government's future role in U.S. agriculture were paramount in farmers' minds. Each of these factors strongly influenced the financial management decisions which are becoming more critical each year as American agriculture takes on more and more of the sophisticated financial characteristics of big business.

The value of farm assets increased \$9.7 billion during 1969, or 3.2 percent (table 1 and fig. 1), compared with an increase of 5.3 percent during 1968 and 5.1 percent during 1967. The smaller gain in 1969 was due primarily to the softening in land values in several areas. Real estate assets increased \$6.0 billion compared with \$9.5 billion during 1968 and \$10.6 billion during 1967. Correspondents in some areas indicated that the softening of land values may continue in 1970 due to the uncertainty about the general economy and the farm program.

The tight money situation of 1969 coupled with high interest rates to reduce the volume of long-term money available for loans from institutional lenders to farmers. Payments on existing loans were good.

Correspondents indicated that farmers continued to build up their reserves in 1969. However, as noted elsewhere, some pockets in the farming sector suffered adverse financial developments. This was particularly true of farmers in the wet areas of the Midwest and for potato growers in Aroostook County, Maine. In addition, many small farm operators were in critical financial condition due to the growing cost-price squeeze. The actual increase in the farm financial assets of \$800 million, or 3.2 percent, included in the balance sheet of the farming sector compared with an increase of 4.1 percent during 1968. The tight money situation was a major factor affecting the financial reserve of farmers. Correspondents in the banking field stressed that farmers were dipping into reserves to purchase needed capital items which normally would have been financed with borrowed capital.

Real estate assets of farmers increased relatively less than the other major assets. In analyzing the correspondents' comments, major factors in the slower increase were the reluctance of farmers to purchase additional real estate and the softening of land value.

Table 1.--Balance Sheet of the Farming Sector, Jan. 1, 1968-70 1/

| Item                             | 1968               | 1969               | 1970 2/            | Net increase<br>1969 to 1970 |            |
|----------------------------------|--------------------|--------------------|--------------------|------------------------------|------------|
|                                  | Billion<br>dollars | Billion<br>dollars | Billion<br>dollars | Billion<br>dollars           | Percent 3/ |
| <b>ASSETS</b>                    |                    |                    |                    |                              |            |
| Physical assets:                 |                    |                    |                    |                              |            |
| Real estate 4/.....              | 193.1              | 202.6              | 208.6              | 6.0                          | 2.9        |
| Non-real estate.....             | 67.2               | 71.8               | 74.7               | 2.9                          | 4.0        |
| Financial assets.....            | 22.1               | 23.0               | 23.8               | .8                           | 3.2        |
| Total.....                       | 282.4              | 297.4              | 307.1              | 9.7                          | 3.2        |
| <b>CLAIMS</b>                    |                    |                    |                    |                              |            |
| Liabilities:                     |                    |                    |                    |                              |            |
| Real estate debt.....            | 25.5               | 27.1               | 28.7               | 1.6                          | 5.8        |
| Non-real estate debt to--        |                    |                    |                    |                              |            |
| Reporting and                    |                    |                    |                    |                              |            |
| nonreporting creditors.....      | 23.5               | 24.8               | 26.8               | 2.0                          | 7.8        |
| Commodity Credit Corporation.... | 1.4                | 2.7                | 2.6                | -.1                          | -2.6       |
| Total.....                       | 50.4               | 54.6               | 58.1               | 3.5                          | 6.3        |
| Proprietors' equities.....       | 232.0              | 242.8              | 249.0              | 6.2                          | 2.5        |

1/ 48 States. 2/ Preliminary. 3/ Computed from unrounded data. 4/ Real estate values are as of March 1.

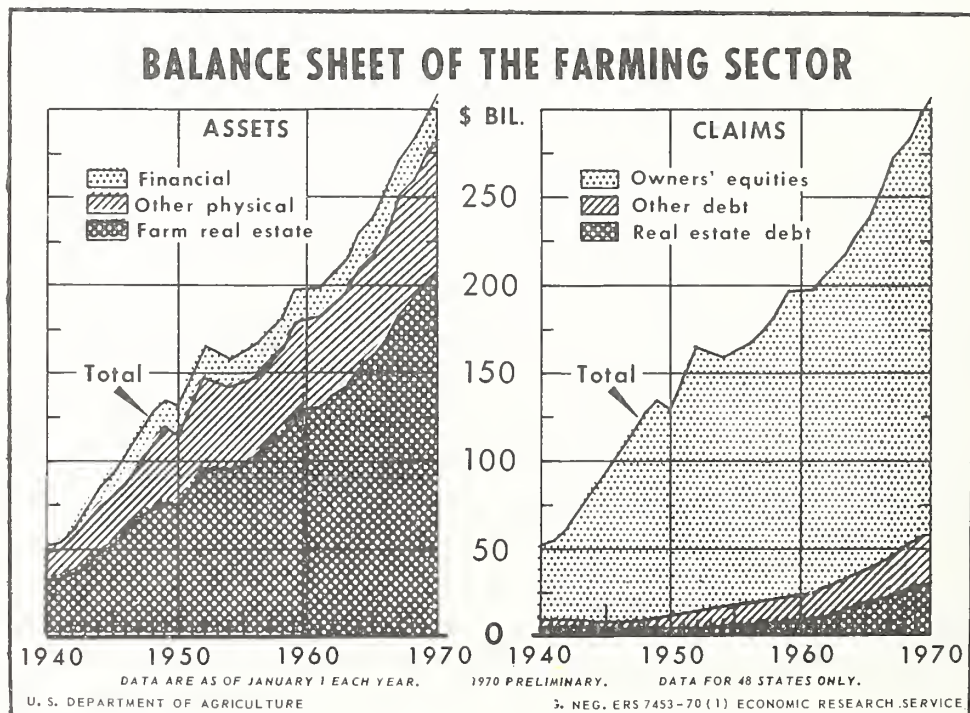


Figure 1



Lender correspondents stressed more strongly than in previous years that lenders are requiring proof of borrower performance. In the words of an Iowa banker correspondent, "Lenders are predicating credit on the management ability of the operator and his ability to produce a profit and less and less on the asset value of the operation."

Another major development during 1969 was the continued growth in the use of the purchase contract to acquire full use of additional land. As discussed more fully in the real estate and credit sections of this report, the purchase contract often offers financial advantages to seller and buyer alike. For the seller it provides a means to spread his capital gains over a period of years. At the same time it permits him to retain capital investment in land. Also, the buyer is permitted a lower downpayment and usually lower interest charges.

A final major development during 1969 which may have future significance in financing American agriculture is the withdrawal of some life insurance companies from the farm-mortgage investment field. The basic issue involved is whether other lenders will be able to provide the needed long-term outside capital if one of the current major lenders withdraws.

## FARM INCOME AND EXPENDITURES

### Outlook for 1970

Increased gross farm receipts are likely in 1970. Continued strength in livestock prices reflects strong domestic demand. Prices of crops remain under pressure, but demand for fruits and vegetables remains high. Since receipts from livestock marketings make up about three-fifths of total marketings, livestock prices influence total marketings more than crop prices.

Expenses will continue upward, with the result that realized net farm income for the first half of 1970 will probably remain near the same level as the first half of 1969. Interest costs, in particular, have increased greatly in the last year and will continue to increase in 1970 as loans repaid in 1969 are replaced with loans at higher interest rates.

### 1969 Income Situation

Realized net farm income for 1969 ran close to the recent near-record mark of \$16.3 billion in 1966. Realized gross farm income last year rose to about \$54.6 billion, up from \$51.1 billion in 1968. Net farm income per farm (including inventory change) was \$5,468; this contrasts with \$4,805 the previous year and \$3,049 in 1960.

Livestock and livestock product receipts were estimated at \$28.5 billion in 1969 compared with \$25.5 billion in 1968. Prices received by farmers for livestock and livestock products were up 12 percent over 1968.

Last year's receipts from crop marketings were slightly above 1968's \$18.8 billion. Crop production was up slightly, but big carry-overs of grains and soybeans, combined with the larger crop, led to a slight drop in the average price for all crops.

Farm production expenses continued to rise. They were about \$38.6 billion in 1969, some \$2.3 billion more than in 1968. Prices advanced for all major inputs except fertilizer. Largest increases came in prices paid for feeder livestock, farm wage rates, and building materials. Both interest and taxes rose substantially over 1968 levels.

## FARM REAL ESTATE

### Outlook for 1970

The year 1970 will be a period of mixed activity in the farm real estate sales market. Price increases can be expected in the Southeast, Delta States, and Northeast regions. Prices in the Corn Belt may be stable to slightly lower. Slight advances may occur in the Northern Plains and Mountain regions. No significant changes in farm real estate prices are expected in the other regions.

With continuing tightness in the institutional farm credit markets, sellers will more frequently provide financing through mortgages or land contracts.

Supply and demand indicators--number of people looking for farms, number of farms on the market and number of farm sales--point to slower activity in the sales market. The demand for land for farm enlargement will continue to be channeled more toward rental rather than purchase.

### 1969 Farm Real Estate Market

A 4-percent increase in the average value of farmland per acre for the year ended November 1, 1969, marked the slowest rate of increase since 1963. Half of the advance in the national average came in the first 4 months of the year. Sharp declines in Illinois and North Carolina in the last 8 months offset earlier gains in average value in these States.

The slowdown in the rate of increase nationally resulted from rather mixed price changes at the State level. Arizona, Illinois, Indiana, and Kansas showed 1-percent declines in the average value of farmland and buildings while Georgia posted a 14-percent increase for the year ended November 1 (fig. 2).

Because of the generally tight money situation, sellers increased their share of real estate credit. Their share rose from 54 percent of the loan volume for real estate purchased in 1968 to 60 percent in 1969 (table 2). Commercial banks maintained the relative position of 11 percent in both years. However, significant shifts occurred in the share of funds provided by insurance companies--down from 17 percent to 8 percent--and Federal land banks--up from 9 percent to 11 percent.

Total volume of land transferred came to about 22.7 million acres valued at \$6.2 billion. The total debt incurred for real estate purchases amounted to \$3.5 billion.

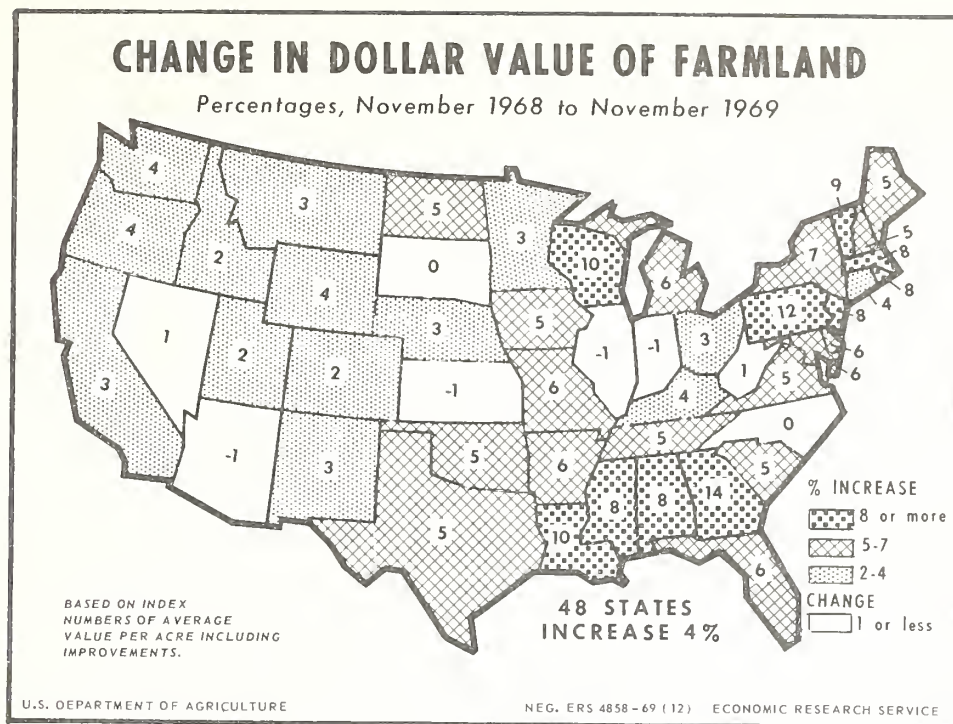


Figure 2

Table 2.--Percentage of dollar volume of loans extended for farm real estate purchases by type of lender, year ended October 1968 and October 1969 <sup>1/</sup>

| Region               | Seller  |      | Banks |      | Life insurance companies |      | Federal land banks |      | Other lenders <sup>2/</sup> |      | Total |      |
|----------------------|---------|------|-------|------|--------------------------|------|--------------------|------|-----------------------------|------|-------|------|
|                      | 1968    | 1969 | 1968  | 1969 | 1968                     | 1969 | 1968               | 1969 | 1968                        | 1969 | 1968  | 1969 |
|                      | Percent |      |       |      |                          |      |                    |      |                             |      |       |      |
| Northeast.....       | 47      | 52   | 25    | 26   | --                       | 4    | 16                 | 11   | 12                          | 7    | 100   | 100  |
| Lake States.....     | 66      | 75   | 9     | 9    | 8                        | 3    | 7                  | 6    | 10                          | 7    | 100   | 100  |
| Corn Belt.....       | 49      | 55   | 14    | 13   | 18                       | 7    | 12                 | 15   | 7                           | 10   | 100   | 100  |
| Northern Plains..... | 54      | 63   | 7     | 7    | 16                       | 7    | 10                 | 9    | 13                          | 14   | 100   | 100  |
| Appalachian.....     | 48      | 40   | 15    | 20   | 9                        | 3    | 16                 | 22   | 12                          | 15   | 100   | 100  |
| Southeast.....       | 55      | 72   | 8     | 5    | 12                       | 3    | 13                 | 4    | 12                          | 16   | 100   | 100  |
| Delta States.....    | 46      | 27   | 12    | 8    | 20                       | 37   | 4                  | 20   | 18                          | 8    | 100   | 100  |
| Southern Plains..... | 48      | 59   | 12    | 14   | 17                       | 9    | 9                  | 5    | 14                          | 13   | 100   | 100  |
| Mountain.....        | 67      | 70   | 3     | 3    | 11                       | 10   | 9                  | 8    | 10                          | 9    | 100   | 100  |
| Pacific States.....  | 41      | 74   | 9     | 5    | 34                       | 7    | 3                  | 9    | 13                          | 5    | 100   | 100  |
| 48 States.....       | 54      | 60   | 11    | 11   | 17                       | 8    | 9                  | 11   | 9                           | 10   | 100   | 100  |

<sup>1/</sup> Based on farm transfers reported by farm real estate dealers and others in March and October surveys.

<sup>2/</sup> Includes FHA and individuals other than seller.

# FARM DEBT

The U.S. farming sector in 1969 experienced another year in which those farmers desiring outside capital had to seek funds in a highly competitive financial market with strongly increased competition from nonfarm users of credit. This was reflected in interest rates which reached the highest levels for several decades.

Correspondents expect farm debt in 1970 to continue upward. Farm enlargement, equipment to substitute for labor, continued inflation of prices of farm inputs, and delayed purchases were the factors listed by the reporters to support their outlook.

Farm debt as of January 1, 1970, totaled \$55.5 billion, excluding CCC loans, and represented an increase of 6.8 percent over January 1, 1969 (table 3 and fig. 3). The average yearly percentage increase since 1960 has been 9.7 percent. However, the 1968 increase was only 6.1 percent. The higher 1969 rate of increase as compared with 1968 was due to farmers making delayed purchases of essential capital items.

Correspondents reported that in general 1969 payments on farm debts were normal. The exceptions were in certain areas of the Corn Belt where some farmers suffered severe crop damage from excessive rainfall and in the potato region in Maine where potato growers have experienced 3 consecutive years of unfavorable prices and increasing costs. Some fruit growers in Michigan and cotton growers in the South also faced financial strains in 1969.

Table 3.--Farm debt outstanding Jan. 1, and annual change, 1960-70 1/

| Year           | Debt outstanding Jan. 1 |                 |                 | Change in debt during year |                 |                 |                             |             |                 |
|----------------|-------------------------|-----------------|-----------------|----------------------------|-----------------|-----------------|-----------------------------|-------------|-----------------|
|                |                         |                 |                 | Dollar change              |                 |                 | Percentage change <u>2/</u> |             |                 |
|                | Total                   | Real estate     | Non-real estate | Total                      | Real estate     | Non-real estate | Total                       | Real estate | Non-real estate |
|                | Billion dollars         | Billion dollars | Billion dollars | Billion dollars            | Billion dollars | Billion dollars | Percent                     | Percent     | Percent         |
| 1960...        | 23.6                    | 12.1            | 11.5            | 1.2                        | 0.7             | 0.5             | 5.0                         | 6.1         | 3.8             |
| 1961...        | 24.8                    | 12.8            | 12.0            | 2.0                        | 1.1             | .9              | 8.2                         | 8.4         | 7.9             |
| 1962...        | 26.8                    | 13.9            | 12.9            | 2.9                        | 1.3             | 1.6             | 10.7                        | 9.1         | 12.3            |
| 1963...        | 29.7                    | 15.2            | 14.5            | 3.3                        | 1.6             | 1.7             | 11.2                        | 10.8        | 11.7            |
| 1964...        | 33.0                    | 16.8            | 16.2            | 3.0                        | 2.1             | .9              | 9.2                         | 12.4        | 5.8             |
| 1965...        | 36.0                    | 18.9            | 17.1            | 4.1                        | 2.3             | 1.8             | 11.5                        | 12.1        | 10.8            |
| 1966...        | 40.1                    | 21.1            | 19.0            | 4.4                        | 2.2             | 2.2             | 10.9                        | 10.0        | 12.0            |
| 1967...        | 44.5                    | 23.3            | 21.2            | 4.5                        | 2.2             | 2.3             | 10.0                        | 9.4         | 10.6            |
| 1968...        | 49.0                    | 25.5            | 23.5            | 3.0                        | 1.7             | 1.3             | 6.1                         | 6.5         | 5.7             |
| 1969...        | 51.9                    | 27.1            | 24.8            | 3.6                        | 1.6             | 2.0             | 6.8                         | 5.8         | 7.8             |
| 1970 <u>3/</u> | 55.5                    | 28.7            | 26.8            | ---                        | ---             | ---             | ---                         | ---         | ---             |

1/ Data for 48 States only. Excludes Commodity Credit Corporation loans.

2/ Computed from unrounded data.

3/ Preliminary estimates.



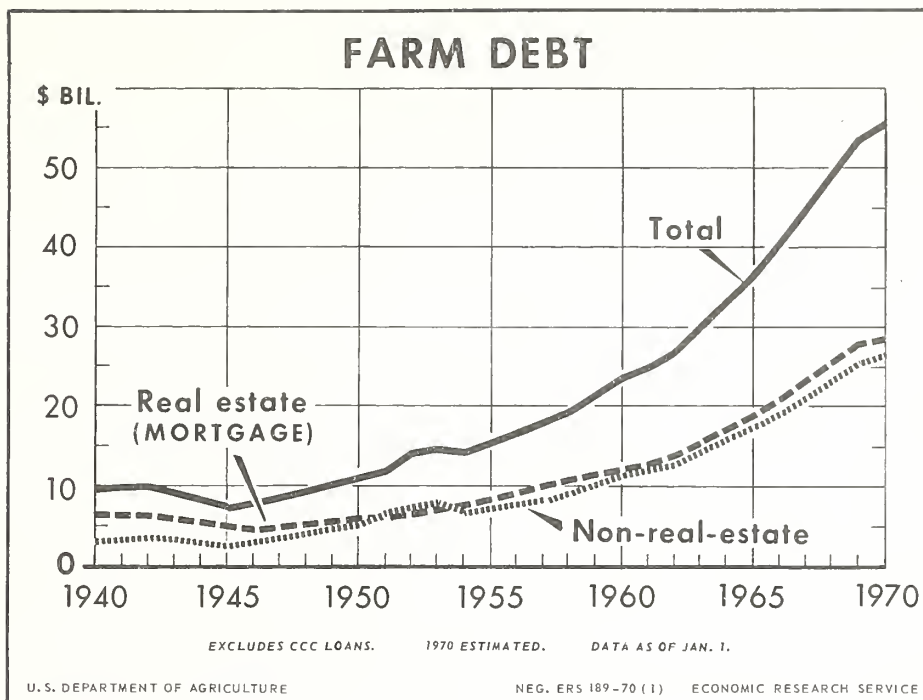


Figure 3

There were several major developments in 1969. First, many life insurance companies withdrew from farm-mortgage investments due to more attractive alternative investments and because of restrictive usury laws in many States; second, there was a significant increase in use of land purchase contracts; third, rural banks near metropolitan centers found the urban loan market more attractive; and fourth, correspondents indicated that farmers are beginning to accept the higher interest rates as a fact of life.

#### Farm-Mortgage Debt

Outlook for 1970. Considerable variation existed in the comments by correspondents regarding probable demand for long-term farm credit in 1970. In general, the comments indicate an increase in the farm debt at about the same level as in 1969. Clouding the outlook for 1970 are three developments: (1) The growing use of purchase contracts, (2) the withdrawal from the farm-mortgage field of life insurance companies due to State usury laws with established interest rate ceilings below current market levels, and (3) the high interest rates.

In view of the availability of funds for farm-mortgage lending from Federal land banks and the willingness of individuals to finance sales, correspondents believe that adequate funds will be available to meet the farm-mortgage loan demand.

The major portion of the 1970 demand for long-term credit will come from farmers desiring to increase the size of their operation by acquiring additional land. There has been a definite decline in the



purchase of farmland by outside investors due to the higher returns on nonfarm investments. Farmers Home Administration (FHA) reporters expressed the view that the demand for long-term funds will increase from farmers eligible for FHA loans. Many lenders will be more selective in 1970 than in the past.

Long-term interest rates during 1970 will probably remain close to the late 1969 level. However, some reporters indicated rates may soften during the second half of the year. These reporters cautioned that an easing in the rates would probably not be over 1 percentage point. There is certainly no likelihood that rates will fall to the 1965 levels.

Developments in 1969. Last year's \$1.6 billion increase in the farm-mortgage debt was the smallest since 1963. The reason for this appears to be twofold--(1) many lenders, particularly life insurance companies, were more interested in investments with higher rates of return than those offered by farm-mortgage investments, and (2) farmers' continued reluctance to make long-term commitments at high interest rates.

The major development during the year was a sharp increase in farm-mortgage interest rates. The third quarter 1969 farm-mortgage loan commitments by life insurance companies averaged 8.72 percent compared with an average of 7.54 percent for the third quarter 1968. Rates charged by Federal land banks followed a similar upward trend. At the close of the year 9 banks were charging 8.5 percent, one was charging 9 percent, and one 8 percent. The twelfth bank was charging 8.5 percent on new loans and on reamortized and refinanced loans 8.0 percent or the previous rate, whichever was higher. A year earlier the rates ranged from 6.0 percent to 7.0 percent.

Correspondents reported a leveling off of farm real estate prices and sales in 1969 in many areas plus some reports of lower prices. This was particularly true in the Lake States, the Corn Belt, and the western States. The lower prices were a direct result of a drop in demand by buyers. The decreased volume of sales was reflected in the volume of farm-mortgages recorded. In the first half of 1969 there was only a slight increase in farm mortgages recorded in the Lake States and the Corn Belt compared with over 10 percent in the comparable period of 1968. There were actual decreases in the Northern Plains and Mountain regions (fig. 4). The amount of farm mortgages recorded in the eastern regions was significantly higher than a year earlier. This pattern was just the reversal of that for the first half of 1968 when the volume of farm mortgages recorded increased in all but three eastern regions where the volume decreased up to 13 percent as compared with the year-earlier period.

The volume of farm-mortgage recordings is one index of new long-term farm debt and of farm sales. However, data from farm-mortgage recordings include not only new money loaned but also existing balances of old loans refinanced and included in the new mortgages. Furthermore, many contract sales may not be recorded, particularly those between family members. Cash sales are also excluded. Thus, while the volume of farm-mortgage recordings does not completely reflect total farm sales or the total new farm debt, it is, however, a useful index of trends in the volume of farm sales and new farm-mortgage credit.

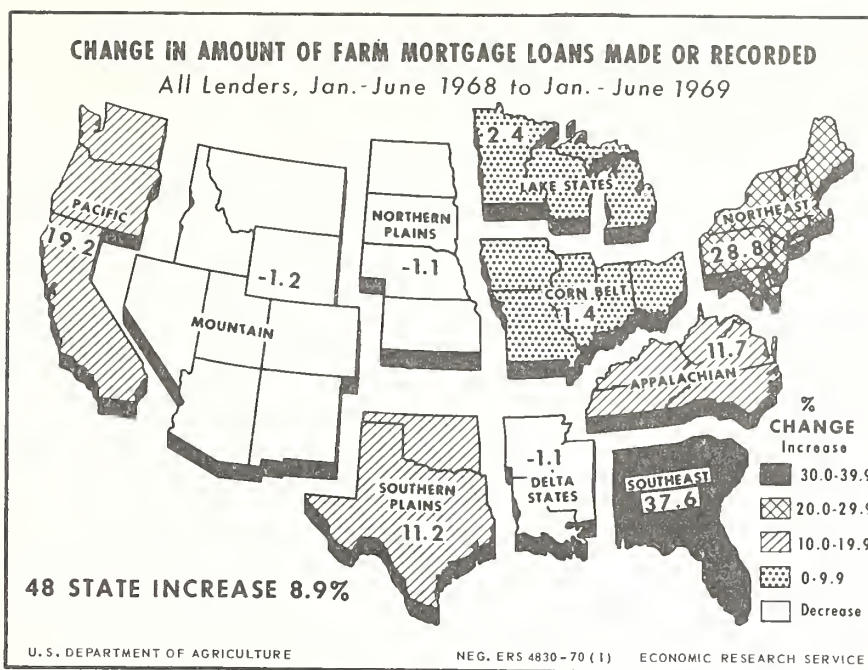


Figure 4

During the latter part of 1969 there was a pronounced drop in new loans made by the life insurance companies and the Federal land banks. Third quarter commitments by life insurance companies dipped 12 percent below the year-earlier period. New money loaned by the Federal land banks for the first 9 months of the year was 16 percent higher than for the same period of 1968; however, for the last quarter of 1969 the volume was 15 percent below the same period of 1968.

The number of farm-mortgage loans with delinquent payments in 1969 continued insignificant relative to the total number of farm-mortgage loans outstanding. However, correspondents indicated there was some increase in the number of farmers experiencing financial difficulties. These farmers were largely located in areas with adverse 1969 weather conditions.

#### Non-Real Estate Farm Debt

Outlook for 1970. Farmers' demand for non-real estate credit in 1970 is expected to match and probably exceed that of 1969, according to reporters. However, borrowers will tend to use credit cautiously, and lenders will adhere to generally tighter loan policies. Credit will be available to farmers who have sufficient productive capacity and the management ability to support their short- and intermediate-term indebtedness.

Failure of participants in the Government's agricultural production control programs to receive advance payments in the spring of 1970 will add only slightly upward pressure to demand for farm operating credit.

In 1969, advance payments in the major feed grain and wheat producing areas represented about 2 percent of the total operating credit in those areas. However, all farmers will not substitute credit for these advance payments. Thus, although credit needs will be slightly higher in the feed grain and wheat areas, the increased use of credit in 1970 will not be significant relative to the total short-term credit used by farmers. Plans to complete 1970 farm program payments as much as 2 months earlier than in the past will soften the impact of no advance crop diversion payments.

Interest rates will likely remain at levels close to the highest point reached in 1969. Any downturn will probably not appear until well into the year. Even then, any drop in interest rates is expected to be slight.

Developments in 1969. Farmers continued to use non-real estate credit in record amounts in 1969 despite higher interest rates. Such credit outstanding at the end of 1969 totaled \$2.0 billion (7.8 percent) higher than at the beginning of the year (table 3). This increase compares with \$1.3 billion for 1968. Institutional lenders reported the volume of farm non-real estate loans outstanding June 30, 1969, was 7 percent above a year earlier (fig. 5).

Increased production costs resulting from inflationary pressures caused some of the rise in farm-operating loans. Prices paid for feeder cattle were considerably higher than in 1968 and called for larger amounts of financing. Compared to the previous year, farmers' expenditures in 1969 for automobiles and trucks were slightly higher while amounts going for tractors and other farm machinery showed a slight drop. However, some equipment that had been "make do" for several years, while farmers hoped for lower interest rates, gave out and had to be replaced. Many replacements were larger and more costly. Capital outlays were substantial and often involved large amounts of credit.

Reporters mentioned that many farm borrowers obtained money through short-term loans for purposes that would ordinarily call for long-term loans. They, thereby, avoided tying themselves to long-term contracts at the high interest rates.

Interest rates on non-real estate loans increased sharply during 1969, advancing 1 to 2 percentage points in most parts of the Nation. The dramatic rise in interest rates is illustrated by the following information on production credit associations (PCA's):

|                                                                                      | <u>1969</u>   |               |               |               | <u>1970</u>   |
|--------------------------------------------------------------------------------------|---------------|---------------|---------------|---------------|---------------|
|                                                                                      | <u>Jan. 1</u> | <u>Apr. 1</u> | <u>July 1</u> | <u>Oct. 1</u> | <u>Jan. 1</u> |
| Percent of PCA's<br>charging interest<br>rates of 8 percent<br>or over on loans..... | 4             | 9             | 50            | 88            | 98            |

Rates charged farmers by banks went up in 1969 by 1/2 to 1-1/2 percentage points. Many of the smaller country banks were able to hold down increases in interest rates more than some of the larger banks. The Farmers Home Administration increased the interest rate on operating loans from 5-1/2 percent in effect in January 1969 to 6-5/8 percent in August.



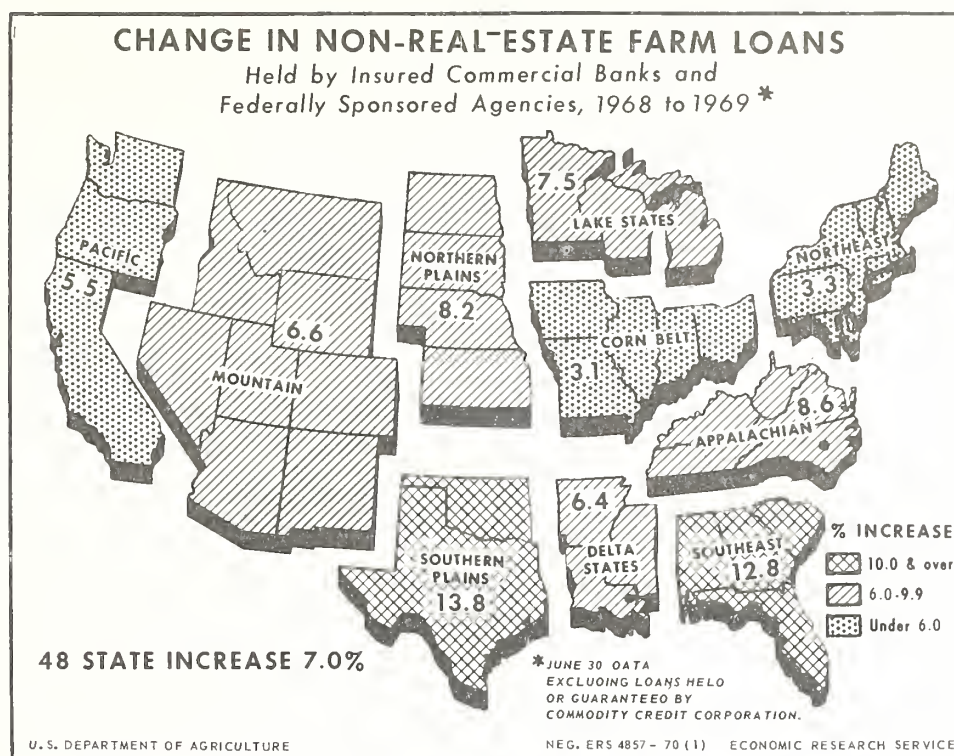


Figure 5

Credit for farm-operating and intermediate-term purposes was generally available in most areas in 1969. However, reporters stated that lenders exercised more restraint in approving loans. Some rural banks reportedly had trouble placing parts of loans that were above their legal lending limit for a single loan. In some States the Farmers Home Administration received an increased number of eligible requests for farm-operating loans because of the restrictive policies of some lenders. Production credit associations were well funded during the year but at record costs. The amount of loans made by PCA's in 1969 increased 17 percent over the year earlier, compared with a 12-percent increase in 1968.

As farms became fewer and larger with higher operating costs, the average size of loan increased.

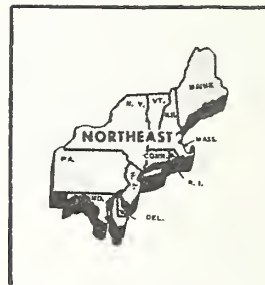


# REGIONAL SITUATION AND OUTLOOK

## NORTHEAST

### Regional Highlights

|                                                                      | 1968<br>(Million dollars) | 1969   | Change<br>(Percent) |
|----------------------------------------------------------------------|---------------------------|--------|---------------------|
| Cash receipts from farm marketings,<br>total-----                    | 3,446                     | 3,654  | 6.0                 |
| Crops-----                                                           | 1,085                     | 1,106  | 1.9                 |
| Livestock and livestock products-----                                | 2,360                     | 2,548  | 8.0                 |
| Market value of farm real estate,<br>March 1-----                    | 9,582                     | 10,138 | 5.8                 |
| Farm real estate debt, Jan. 1-----                                   | 1,586                     | 1,656  | 4.4                 |
| Farm mortgage recordings, Jan.-June                                  | 136                       | 176    | 29.4                |
| Non-real estate farm loans held by<br>reporting lenders, July 1----- | 809                       | 836    | 3.3                 |



### Outlook for 1970

Optimism prevails among reporters in regard to agriculture for 1970 for the Northeast region. However, in 1970--due to the wide range in type of agriculture--all segments may not enjoy the generally good returns of 1969. Pessimism continues to prevail for Maine's Aroostook County potato growers as well as for Long Island's duck farmers.

Correspondents generally believe the 1970 demand for farm credit will be considerably above the 1969 level--as much as 10 to 15 percent. In view of the growing shortage of farm labor which is forcing farmers to continuously adopt laborsaving techniques and equipment, the correspondents indicate that the high interest rates will not be a limiting factor in using outside capital by farmers in the Northeast region.

Interest rates will probably level off in 1970 and may drop a little, according to the reporters.

Land values will continue upward due to the urban pressures to acquire nearby land and the demand by farmers who desire to relocate in more rural areas.

### 1969 Financial Conditions

In the 11 States of the Northeast farm production region, the 1969 level of farm production was generally higher than in 1968. Prices for major farm products were higher and therefore the gross receipts from farm marketings were 6 percent above the 1968 receipts. The major portion of the increased receipts was credited to livestock and livestock product receipts which increased 8.0 percent above 1968 compared with an increase of crop receipts of 1.9 percent.

Operating costs continued upward in 1969. However, the increased costs did not offset the higher receipts. The net returns to farmers will be higher in all States, according to the reporters.

In spite of the generally good 1969 returns, there were several farm enterprises which did not share in the increased receipts. A correspondent in Maine stated--

The 1968 yield of potatoes per acre in Aroostook County was similar to that of 1967. Prices received for the 1968 crop were unfavorable as were those received for the 1966 and 1967 crop. Due to these adverse prices, and the continued upward trend in production and harvesting costs, most Aroostook County potato farmers have experienced a loss for the third consecutive year.

On Long Island the incomes of duck growers benefited from higher selling prices which outweighed a further decline in duck production. However, duck farming continues to be affected adversely by rising real estate values and high operating costs.

Contrasting to the reports from correspondents in other areas, reporters in the Northeast region indicated that the high cost of outside capital did not appear to restrict the use of borrowed funds by farmers. The farmer demand for credit appeared to be significantly higher throughout the region. This is not generally reflected in the regional statistics above except for farm-mortgage recordings for the first half of the year which were 29 percent higher than the comparable 1968 period. In Vermont use of operating credit was highest on record.

The supply of funds to finance agriculture in the region appears sufficient, although the sources of farm credit have shifted. One reporter summarized the situation thusly,

In general, banks located closer to non-rural areas are becoming less and less interested in making, or participating in, agricultural loans. This applies particularly to longer-term farm loans. Insurance companies have practically withdrawn from farm mortgage lending. Individuals, however, continue to have considerable interest in mortgage credit and banks in our rural areas continue to be an important source of farm credit at relatively reasonable rates. Their interest, however, is primarily in short-term loans, with mortgage credit frequently held to maturities of 10 years or less.

Land values continued to increase in the region, particularly near urban centers.

## LAKE STATES

### Regional Highlights

|                                                                      | 1968<br><u>(Million dollars)</u> | 1969   | Change<br><u>(Percent)</u> |
|----------------------------------------------------------------------|----------------------------------|--------|----------------------------|
| Cash receipts from farm marketings,<br>total-----                    | 4,173                            | 4,417  | 5.8                        |
| Crops-----                                                           | 1,198                            | 1,198  | .0                         |
| Livestock and livestock products-----                                | 2,975                            | 3,219  | 8.2                        |
| Market value of farm real estate,<br>March 1-----                    | 13,681                           | 14,688 | 7.4                        |
| Farm real estate debt, Jan. 1-----                                   | 2,558                            | 2,697  | 5.4                        |
| Farm mortgage recordings, Jan.-June                                  | 186                              | 190    | 2.2                        |
| Non-real estate farm loans held by<br>reporting lenders, July 1----- | 1,424                            | 1,531  | 7.5                        |



### Outlook for 1970

Correspondents in the Lake States were cautious in expressing opinions as to the general outlook for agriculture in 1970. Concern was indicated over the probable increased input costs and the likelihood that grain prices may be no higher and possibly lower due to anticipated higher production. In addition, the 1969 weakness in net income for fruit farmers in Michigan has a depressing influence on the 1970 outlook for these farmers.

Improved livestock and dairy prices in 1969 are expected to bolster the 1970 income of livestock and dairy farmers according to the reporters.

The balance sheet for the Lake States farmers will probably continue to show increased equities as the value of land and buildings and savings are expected to increase more than financial obligations.

All correspondents expressed the view that the movement of farmers out of farming in the Lake States area will continue in 1970 as marginal operators and farmers with marginal ability take advantage of the seemingly open-end opportunities for off-farm employment in the area. In the marginal farming areas the growing tightness in the money market and the increasing interest rates will be a strong influence in encouraging farmers to limit marginal farm enterprises.

### 1969 Financial Conditions

The financial condition of Lake States farmers at the close of 1969 was generally improved over a year earlier. However, there was considerable variation by type of farm enterprise according to reporters. Livestock and dairy farmers closed the year in all three States with improved financial conditions.

In Minnesota, hogs, cattle, calves, and dairy cattle account for 60 percent of the farm receipts. The 1969 receipts from livestock enterprises were 8.4 percent higher than for 1968--whereas the 1969 receipts from crop sales were 2.9 percent higher.

In Michigan, the 1969 receipts from livestock enterprises were 7.8 percent higher than for 1968; however, crop sales were 2.8 percent lower than in 1968. The 1969 Michigan receipts from fruit sales were significantly lower. In the words of one reporter, "The 1969 Michigan fruit farming was sick." The value of the 1969 production of the leading fruits in Michigan was less than 80 percent of the 1968 production. The value of the 1969 production of cherries, the major tree fruit crop, was only 53 percent of the 1968 production.

Cash receipts from farm marketings in Wisconsin were 6.7 percent higher in 1969 compared with 1968. This was due entirely to increased receipts from marketings of livestock and livestock products as cash receipts from crops fell nearly 1 percent.

Reporters indicated that many Lake States farmers were being hurt by the tight money situation through high interest rates and shortages in loanable funds for farmers. An analysis of the statements by reporters indicate that these are probably the marginal farmers. Reference was made particularly to Northern Wisconsin where the FHA representatives stated that the demand for their loans far exceeds available funds and other credit is practically nonexistent.

Land values in the Lake States as of March 1, 1969, were 7.4 percent higher than a year earlier. The demand continued strong throughout the year; however, the reporters indicated some softening in land values particularly in Wisconsin and Michigan.

## CORN BELT

### Regional Highlights

|                                                                      | 1968<br>(Million dollars) | 1969   | Change<br>(Percent) |
|----------------------------------------------------------------------|---------------------------|--------|---------------------|
| Cash receipts from farm marketings,<br>total-----                    | 10,031                    | 10,866 | 8.3                 |
| Crops-----                                                           | 3,854                     | 3,841  | -.3                 |
| Livestock and livestock products-----                                | 6,178                     | 7,024  | 13.7                |
| Market value of farm real estate,<br>March 1-----                    | 46,066                    | 47,940 | 4.1                 |
| Farm real estate debt, Jan. 1-----                                   | 5,129                     | 5,482  | 6.9                 |
| Farm mortgage recordings, Jan.-June                                  | 674                       | 684    | 1.5                 |
| Non-real estate farm loans held by<br>reporting lenders, July 1----- | 3,339                     | 3,442  | 3.1                 |



### Outlook for 1970

The 1970 net farm income for Corn Belt farmers will be unchanged to slightly lower according to the reporters located throughout the area. The correspondents invariably agreed that operating costs would be higher. Coupled with these opinions was uncertainty about the national economy. Concern was also expressed about farm programs after 1970.



There appears to be no uniformity of the reporters' opinions as to the 1970 level of demand for farm loans. The demand for farm loans will be keyed directly to interest rates.

The correspondents are of the opinion that loan funds will be available to meet the demand to finance real estate transfers and operating and intermediate credit needs. Based on 1969 experience, the latter may be restricted to those farmers who are able to demonstrate good managerial practices. The continuously increasing number of land transfers on a purchase contract basis will lower buyer demand for institutional long-term credit.

The reporters generally believe that interest rates in 1970 will remain high throughout the Corn Belt, but that the upward trend will ease.

### 1969 Financial Conditions

Cash receipts from farm marketings for 1969 were 8.3 percent higher than in 1968. Very favorable prices for livestock and livestock products, particularly beef cattle, hogs, and milk, resulted in 1969 cash receipts from these sources being nearly 14 percent higher than in 1968. However, the lower 1969 prices received for soybeans and unfavorable crop yields in some sections of the region such as north-central and northeast Missouri and spots in Indiana, Illinois, and Ohio, resulted in total 1969 Corn Belt crop receipts at the same level as in 1968. Corn and soybean yields were unusually good in most of Indiana and Illinois.

The correspondents stressed the growing importance of off-farm income in the Corn Belt--particularly for grain farmers and small marginal farmers. These sources of income in 1969 bolstered the total income of such farmers significantly. There appeared to be ample opportunities for all farmers who desired to supplement their farm incomes in this way.

The higher gross receipts for the region more than offset the increased costs of farm inputs. The correspondents almost uniformly indicated that the financial position of the Corn Belt farmers at the close of 1969 was moderately stronger than a year earlier. The exceptions were largely in the grain farming areas noted above where unfavorable weather reduced cash receipts from sale of crops.

Corn Belt farmland prices appear to have leveled off during 1969 with some decline in certain areas. The correspondents in general found it more difficult than usual to grasp the real trend in land values due to the relatively few transactions and the increasing percentage of land transfers affected through purchase contracts. Farmers are increasingly more reluctant to commit themselves to long-term debt at prevailing interest rates which increased from 1 to 1-1/2 percentage points during the year. Many reporters indicated sellers were willing to accept lower interest payments if an upward adjustment were made in the purchase price.

Without exception the reporters indicated a definite sluggishness in purchases of new farm machinery. The main reasons indicated were high interest rates, no new major technological developments, uncertainty in regard to the economic outlook and high prices.

Although the 1969 money supply seemed adequate to meet the farmer demand, correspondents noted a growing withdrawal by both banks and life insurance companies from agriculture. There appeared to be two main reasons; higher returns on investments to lenders in nonagricultural fields, and State usury laws which have caused several large insurance companies to withdraw from the farm-mortgage lending area. The availability of Federal land bank mortgage funds has tended to diminish the impact of the latter on total available funds for long-term borrowing.

The withdrawal of some lenders from agriculture and high interest rates charged by merchants and dealers have created difficult financing problems for small and marginal farmers. An analysis of the comments made by reporters regarding small and marginal farmers indicates the credit needs of these farmers may not be filled by the traditional lenders. There will probably be increased demands for credit from the Farmers Home Administration.

## APPALACHIAN

### Regional Highlights

|                                                                      | 1968<br>(Million dollars) | 1969   | Change<br>(Percent) |
|----------------------------------------------------------------------|---------------------------|--------|---------------------|
| Cash receipts from farm marketings,<br>total-----                    | 3,308                     | 3,625  | 9.6                 |
| Crops-----                                                           | 1,619                     | 1,749  | 8.0                 |
| Livestock and livestock products--                                   | 1,689                     | 1,876  | 11.1                |
| Market value of farm real estate,<br>March 1-----                    | 14,168                    | 14,878 | 5.0                 |
| Farm real estate debt, Jan. 1-----                                   | 1,774                     | 1,881  | 6.0                 |
| Farm mortgage recordings, Jan.-June                                  | 298                       | 333    | 11.7                |
| Non-real estate farm loans held by<br>reporting lenders, July 1----- | 1,051                     | 1,141  | 8.6                 |



### Outlook for 1970

Most farmers in the Appalachian region entered 1970 in moderately stronger financial condition than a year earlier. Correspondents indicated that 1970 farm income will be up enough to at least equal, and in many cases exceed, the probable rise in production costs.

Demand for credit in 1970 will likely increase. Production costs will probably increase due to the general inflationary trend. A rise in credit use will follow as borrowers' needs mount for operating and capital purpose credit. Lenders will use more restrictive policies when considering loan applications.

Land purchases for farm enlargement and purchases of replacement machinery and buildings that have been postponed for several years and cannot be put off any longer will maintain a strong demand for long-term credit. Farmland will likely cost more except in some tobacco growing areas. Renting or leasing land by farmers rather than purchasing at higher prices should increase in many localities.

Credit funds will likely be available to nongovernmental lenders to cover requests from the farm sector. In contrast to most other parts of the Nation, some reporters felt that life insurance companies may increase farm lending slightly in the Appalachian region in 1970. Country banks may find some restrictions in obtaining participation from larger banks for loans above legal size limits of these smaller banks. As usual, requests for Farmers Home Administration loans will exceed available funds.

Interest rates on farm loans will likely remain high. Any slackening will not come until near midyear--too late for most production loans.

### 1969 Financial Conditions

Returns from farming in the Appalachian region varied by area and by enterprise. Higher prices for livestock and livestock products boosted gross farm receipts for such producers in all parts of the region. As in 1968, cash receipts from marketings of livestock and livestock products in the Appalachian region exceeded those from crops. Cost of producing livestock and their products increased during the year but not enough to offset the increase in gross receipts, thereby improving the financial condition of such farmers during 1969.

Tobacco is the main crop for the region. Production increased in every State and prices were generally higher. Although the change was not as dramatic as with livestock, most tobacco farmers fared as well or better in 1969 than they did the year before.

Increased yields on an expanded acreage boosted cotton production in Tennessee by 30 percent. However, a decrease in prices received by farmers and an increase in production costs cut substantially the potential increase in net returns. In North Carolina cotton production was hit hard by unfavorable weather conditions. Costs including higher expenses for insect control left many cotton producers there in worse financial shape than a year earlier.

Receipts from peanuts in Virginia and North Carolina were about the same as in 1968. Variations were limited mostly to local weather conditions. Regional corn production was about 8 percent larger than in 1968. Kentucky and North Carolina accounted for most of the increase.

Virtually all reporters stated that off-farm income was an important part of total farm family income, especially on small and part-time farms. The Appalachian region offers more opportunity for off-farm employment than many other parts of the United States. In numerous parts of the region, farm family members can find satisfactory employment off the farm without relocating. Off-farm earnings supplement farm income and often replace income lost through terminating certain farm enterprises.

Spending for family living was reportedly continued at rates above the last several years. Some was going to improve the level of living while a good portion was spent sustaining about the same level of living at the higher prices.

Farm mortgage credit was in strong demand throughout the first three quarters of 1969. In the last few months of the year demand



slackened. The weakening was due to several factors, according to reporters. Reluctance to pay high rates of interest on loans to buy farmland, further withdrawal of life insurance companies from investing in farm mortgages, increased prices for farmland, and high costs of capital improvements were some of the more prevalent reasons.

Leasing or renting land for farm enlargement rather than purchasing grew in favor in many parts of the region. One reporter stated, "In areas where enlargement purchases had declined, farm rental or leasing arrangements had increased. By enlarging their farming operations in this manner, farmers can, of course, still make more efficient use of available capital and labor and yet reduce their debt load at the same time."

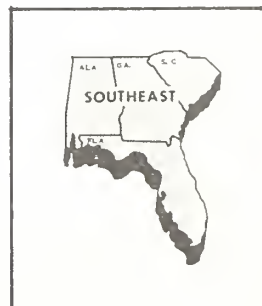
Credit for farm operating and intermediate-term loans, was available during the year at higher cost. There were local exceptions reported but no widespread lack of economically sound operations. Some country banks had trouble finding larger city banks that wanted parts of large farm loans. Production credit associations increased their loan volume substantially in each State in the region. The Farmers Home Administration was unable to accommodate all those seeking their loans. Merchants and dealers continued to furnish large amounts of credit--especially for chemical, fertilizer, fuel and machinery purchases.

Interest rates on farm loans rose 1 to 2 percentage points during 1969 in most all parts of the region. By yearend, interest rates on long-term loans from institutional lenders ranged mostly from 8-1/2 to 9-1/2 percent. Banks and PCA's were charging from 7 to 8 percent for short- and intermediate-term loans in most areas with some going as high as 9 percent and above. Although some States have upped the interest ceiling on loans in the last year or two, usury ceilings in certain States are still too low to attract large amounts of loan funds.

## SOUTHEAST

### Regional Highlights

|                                                                      | 1968<br>(Million dollars) | 1969   | Change<br>(Percent) |
|----------------------------------------------------------------------|---------------------------|--------|---------------------|
| Cash receipts from farm marketings,<br>total-----                    | 3,305                     | 3,587  | 8.5                 |
| Crops-----                                                           | 1,734                     | 1,820  | 5.0                 |
| Livestock and livestock products-----                                | 1,571                     | 1,767  | 12.5                |
| Market value of farm real estate,<br>March 1-----                    | 11,973                    | 12,948 | 8.1                 |
| Farm real estate debt, Jan. 1-----                                   | 1,741                     | 1,904  | 9.4                 |
| Farm mortgage recordings, Jan.-June                                  | 238                       | 327    | 37.4                |
| Non-real estate farm loans held by<br>reporting lenders, July 1----- | 736                       | 830    | 12.8                |





## Outlook for 1970

Farmers in the Southeast region entered 1970 in much the same financial condition as they entered 1969. However, those who depend more on livestock and livestock products than on crops showed some improvement.

Gross farm income in the year just ended was up but so were costs. Some pessimism and uneasiness about the farming situation is evident. Production costs are almost certain to increase in 1970 with little expectation that prices received will go up as much. Uncertainty about Government farm programs after 1970 will affect decisions on machinery purchases and capital improvements. The supply of competent labor is unlikely to improve. The smaller farmers are concerned over their fate in the growing tide of farm enlargement.

Demand for farm credit will continue strong. This includes credit from the Farmers Home Administration (FHA) continually under pressure for loans at their advantageous interest rates. Farmers' outlook and changes in interest rates will largely determine the extent of growth of long-term loans. But loans for day-to-day operating purposes will undoubtedly grow--if for no other reasons than to keep up with inflationary trends and increased costs of a continuously increasing mechanized agriculture.

Farm operating and equipment loans will be available to economically sound borrowers, but at higher cost than a year earlier. Country banks and production credit associations (PCA's) now charge from 1/2 to 1-1/2 percentage points higher interest rates than in early 1969. Even FHA interest rates on operating loans are now 6-5/8 percent compared to 5-1/2 percent in February 1969. Long-term loans on farm real estate will also be more expensive than last year and may be harder to arrange if the tight money situation continues. Federal land banks in the region are charging 9 percent interest except in Alabama where the rate is 8-1/2 percent. This compares to rates of 7 percent in South Carolina, Georgia, and Florida, and 6-3/4 percent in Alabama in the early months of 1969. Life insurance companies may renew, somewhat, their activity in making farm-mortgage loans in the Southeast in 1970. Chances are rather slim that rates from farm-mortgage lenders will ease much during 1970.

## 1969 Financial Conditions

Crop farmers in the Southeast did not fare as well in 1969 as did producers of livestock and livestock products. Crop sales receipts varied considerably across the region. Cotton production was up except in South Carolina where extreme weather caused early abandonment of one-sixth of planted acreage. The remaining acreage had a lower yield, cotton cost more to grow and harvest, and brought lower prices than in 1968. Soybean output was up 50 percent from the 1968 crop but prices were lower--offsetting much of the gain in production. South Carolina flue-cured tobacco production was 12 percent over last year's, but Georgia tobacco farmers harvested 9 percent less. Tobacco prices averaged higher than in 1968; acreage was about 8 percent higher.

Corn acreage was about the same as in 1968, but lower yields dropped output 14 percent. Prices for corn were a few cents per bushel higher than a year ago. Farmers who marketed corn through hogs and cattle realized a better gain than those who sold for cash.

Peanut production in Georgia and Alabama was slightly higher than in 1968 with prices up a few cents per pound.

The 1969-70 Florida citrus crop will be larger than the last. Because larger supplies are bringing lower prices, net returns are not expected to be much greater.

Vegetable growers have had better years. Several correspondents mentioned that higher costs continued to lower net returns for vegetable growers in the region.

In general, cattle and hog producers had an unusually favorable year. Production was up only slightly but prices were up considerably and returns much improved. The region's broiler and egg production was about the same as for 1968 but prices--especially for eggs--averaged substantially higher. Milk prices were also higher.

Off-farm income was mentioned in most reports as being of growing importance in farm family incomes. Most of such income went to upgrade levels of living.

Production costs were reported up from 1968 for the whole region with sharp rises in those localities that had severe replanting and pest problems. A common complaint was the lack of competent farm labor. The shortage caused farmers to pay higher wages to available workers. The lack of competent labor was also expensive in that it required purchases of machinery to replace labor and in cases of some labor-intensive crops, caused the farmer to leave that enterprise or substitute another that called for considerable capital outlays.

Credit for farming was in strong demand regionwide in 1969 with short-term loans receiving most emphasis. As of July 1, 1969, such loans outstanding from institutional lenders were nearly 13 percent above a year earlier. The previous 12-month rise was less than 5 percent. Some of the additional credit was needed to finance replanting and for pest control in many parts of the region.

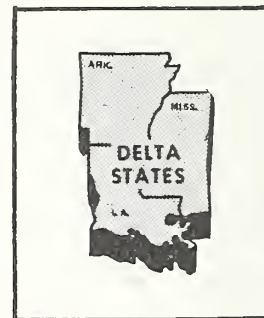
In contrast to most other parts of the Nation, demand for long-term credit was strong in much of the Southeast. Requests for farm enlargement and long-term loans to consolidate or refinance burdensome short-term loans were prevalent during the first three quarters of 1969. In the later months such loan applications declined. The Federal land banks were left as the most important farm-mortgage lender when life insurance company lending dwindled. Farm real estate loans made by commercial banks were for periods of not more than 10 years in most cases. Such terms are usually too short for farmers to repay from earnings. The FHA was as active in farm mortgage lending as its funds would permit. However, that agency's loans make up only a small part of the total farm real estate lending.

Credit was usually available but at higher cost. Interest rates climbed sharply in the Southeast in 1969. Increases of from 1/2 to 2 percentage points were common, reflecting the nationwide tight money situation. It was reported that some long-term lenders were using variable interest rates. Such loan contracts were written at a specific rate for a certain number of years with the lender reserving the right to vary the rate of interest for the remaining years.

## DELTA STATES

### Regional Highlights

|                                                                      | 1968<br>(Million dollars) | 1969<br>(Million dollars) | Change<br>(Percent) |
|----------------------------------------------------------------------|---------------------------|---------------------------|---------------------|
| Cash receipts from farm marketings,<br>total-----                    | 2,462                     | 2,500                     | 1.5                 |
| Crops-----                                                           | 1,326                     | 1,231                     | -7.2                |
| Livestock and livestock products-----                                | 1,136                     | 1,269                     | 11.7                |
| Market value of farm real estate,<br>March 1-----                    | 10,951                    | 11,873                    | 8.4                 |
| Farm real estate debt, Jan. 1-----                                   | 1,413                     | 1,566                     | 10.8                |
| Farm mortgage recordings, Jan.-June                                  | 276                       | 273                       | -1.1                |
| Non-real estate farm loans held by<br>reporting lenders, July 1----- | 803                       | 854                       | 6.4                 |



### Outlook for 1970

Most commercial farmers in the Delta region began the new year in a less favorable financial condition than a year earlier. For many it will be an uphill pull to recover from 1969's reduced farm returns. Although gross farm income in 1970 is expected to improve, reporters believe higher production costs will leave a net income somewhat near the average for the last several years.

Demand for production credit will likely continue strong throughout the region despite high interest rates. Expenditures requiring intermediate- and long-term credit will be made cautiously and in most cases will depend on the income prospects as they develop during the farming year.

Money for farm lending will again be available in sufficient quantity with the exception of long-term loan funds. The gap left by the inactivity of life insurance companies in farm-mortgage lending will likely not be filled entirely by other lenders. Interest rates on all types of farm loans will be relatively high throughout the year.

### 1969 Financial Conditions

Unfavorable weather followed by generally reduced yields and depressed prices resulted in lowered 1969 gross incomes for most Delta farmers. This condition was more prevalent when the farming operation depended on crops such as cotton, soybeans, and small grains rather than on livestock and livestock products. Substantially higher prices for cattle and hogs during most of the year increased receipts from livestock enterprises.

Cotton acreage in the Delta was higher than for the previous 2 years. However, highly unfavorable planting and growing seasons in much of Mississippi and Louisiana lowered yields in those States severely enough to more than offset acreage increases. Replanting and pest control expenses necessitated by the bad weather added to already



high production costs. Arkansas farmers, especially those in the southeastern part of the State, escaped the severe damage that plagued most farmers in other parts of the Delta.

Experience in the Delta with soybeans was similar to that for cotton. Acreage was record high--8 percent above 1968--but yields were down enough to lower total production by 9 percent. The lower price received in 1969 for soybeans further depressed receipts.

Income from rice in Arkansas was slightly higher than in 1968. Higher yields and improved prices more than offset a drop in acreage. Rice yields and production were down slightly in Mississippi and drastically in Louisiana.

Sugarcane receipts, which are important in parts of Louisiana, slipped slightly from a year earlier due mostly to lower acreage.

Producers of livestock and livestock products received a shot in the arm in 1969 from rising prices. Cattle, hog, broiler, and dairy product prices were up. With some increase in total production, cash receipts increased 11 percent over 1968, which in turn had gained 7 percent over 1967.

Off-farm income continued good in areas where such income opportunities were available. In years of comparatively low net returns from farming, such as last year, supplemental income from nonfarm sources gains importance.

Use of credit by Delta farmers, especially for production purposes, was heavy during most of 1969. New long-term loans from institutional lenders were made at a slow pace. Life insurance companies, traditionally the single most important farm-mortgage lender group in the Delta, made few new loans in the region in the later months of 1969. The reason is simple. One reporter put it this way, "Most of the [Life] insurance companies are out of the farm loan market today because they seem to be able to find a better home for their money."

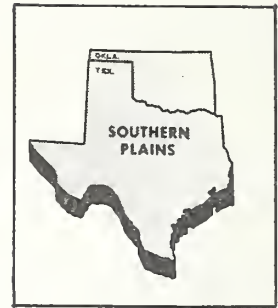
Credit seemed to be available for those farmers who convinced lenders they could pay the price. By the end of the year interest rates on operating and intermediate-term loans ranged from 1 to 1-1/2 percentage points higher than at the beginning of the year. Rates of 7-1/2 and 8 percent were common. Long-term loans carried interest rates substantially higher than year-earlier levels and most ranged from 8 to 9-1/2 percent by yearend.



## SOUTHERN PLAINS

### Regional Highlights

|                                                                      | 1968<br>(Million dollars) | 1969   | Change<br>(Percent) |
|----------------------------------------------------------------------|---------------------------|--------|---------------------|
| Cash receipts from farm marketings,<br>total-----                    | 3,515                     | 3,716  | 5.7                 |
| Crops-----                                                           | 1,523                     | 1,429  | -6.2                |
| Livestock and livestock products--                                   | 1,992                     | 2,287  | 14.8                |
| Market value of farm real estate,<br>March 1-----                    | 24,088                    | 25,415 | 5.5                 |
| Farm real estate debt, Jan. 1-----                                   | 2,401                     | 2,549  | 6.2                 |
| Farm mortgage recordings, Jan.-June                                  | 305                       | 339    | 11.1                |
| Non-real estate farm loans held by<br>reporting lenders, July 1----- | 1,555                     | 1,770  | 13.8                |



### Outlook for 1970

The outlook for 1970 in the Southern Plains, as reported by respondents from the area, indicates that gross farm income may continue at its present level. Livestock production and prices are expected to be higher in 1970. But costs are expected to increase about 5 percent resulting in a slightly lower net farm income. Land prices in this area will probably continue slightly upward.

Demand for credit is expected to increase, but availability of funds will remain tight. Interest rates are expected to remain high and possibly edge upward a little more. A few respondents thought that interest rates might ease a little in the second half of 1970, but even they didn't expect any easing in the first half. Continued feedlot expansion in this area will require additional credit.

### 1969 Financial Conditions

The overall financial condition of farmers in the Southern Plains appeared to have deteriorated from a year ago, especially in the predominantly crop regions. Farm enlargement has slowed due to a shortage of funds for long-term land loans and for cattle feeding facilities. Short-term funds appeared to be available for operating expenses and needed machinery replacement. The volume of land transfers was down as much as 50 percent in some wheat areas of Oklahoma and the overall demand for long-term loans appeared to have declined as well as the supply of long-term funds.

Machinery purchases in this area remained strong. Demand for non-real estate credit continued high. Feedlot expansion accounted for much of the increase. Interest rates were higher than in 1968.

Total receipts from farm marketings increased 5.7 percent. Receipts from livestock in 1969 were 14.8 percent above the same period in 1968 in the Southern Plains, but receipts from crops were down 6.2 percent.

Livestock production is becoming increasingly important in the Southern Plains. In 1960, crops made up 47.2 percent of total receipts

and livestock 52.8 percent. In 1969 crops were only 38.5 percent and livestock 61.5 percent. Beef prices were higher than in 1968. The number of cattle and calves marketed during October 1969 in Texas was up 52 percent over 1968 and the number of head on feed November 1, 1969 was 41 percent greater than November 1, 1968.

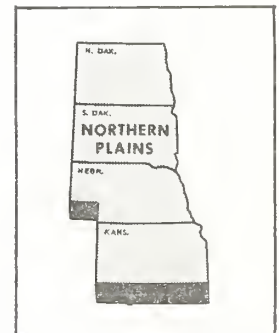
In Texas, rice, sorghum grain, and cotton production declined in 1969, while corn, peanut, soybean, Irish potato, and sugarbeet production increased. In Oklahoma, sorghum and peanut production was lower, but cotton production increased slightly.

The market value of real estate as of March 1, 1969 was up 5.5 percent. Farm real estate debt on January 1, 1969 was up 6.2 percent and non-real estate debt on July 1, was up 13.8 percent. Farm mortgage recordings increased 11.1 percent. Even though the debt figures for 1969 all increased, percentagewise, the gains were less than the changes in 1968.

## NORTHERN PLAINS

### Regional Highlights

|                                                                      | 1968<br>(Million dollars) | 1969   | Change<br>(Percent) |
|----------------------------------------------------------------------|---------------------------|--------|---------------------|
| Cash receipts from farm marketings,<br>total-----                    | 4,972                     | 5,475  | 10.1                |
| Crops-----                                                           | 1,676                     | 1,763  | 5.2                 |
| Livestock and livestock products-----                                | 3,295                     | 3,713  | 12.7                |
| Market value of farm real estate,<br>March 1-----                    | 21,317                    | 22,227 | 4.3                 |
| Farm real estate debt, Jan. 1-----                                   | 2,203                     | 2,355  | 6.9                 |
| Farm mortgage recordings, Jan.-June                                  | 219                       | 217    | -.9                 |
| Non-real estate farm loans held by<br>reporting lenders, July 1----- | 2,193                     | 2,373  | 8.2                 |



### Outlook for 1970

Interest rates are expected to remain high in 1970, possibly increasing. Demand for real estate credit is expected to be reduced somewhat and supply of real estate credit will also be less. The supply of non-real estate credit will be tight for the larger loans, especially for expansion purposes, but adequate funds should be available for normal operating expenses. The value of land in the dry cropland areas will probably drop, especially in the wheat areas. Pressures on the price of land to increase in the irrigated areas of the region will be strong in 1970. Unless unusually favorable weather occurs, range conditions will be poor for the Dakotas for the first half of 1970.

### 1969 Financial Conditions

The financial condition of most farmers and ranchers in this region was reported to be improved over 1968. Livestock prices were higher than in 1968 and receipts were up. Interest rates were higher than for

1968 but the use of credit continued upward. The increased debt has not been accompanied by increased delinquent payments on loans. If anything the payment record has improved, especially in the livestock areas.

Cash receipts from farm marketings in 1969 were up 10.1 percent over 1968. The increase came mainly from a 12.7-percent advance in livestock marketings, which are becoming more important in the Northern Plains area. Crop marketings were up 5.2 percent. In 1960 crop marketings accounted for about 44 percent of total marketings and livestock 56 percent. In 1969, crops accounted for only 32 percent and livestock 68 percent.

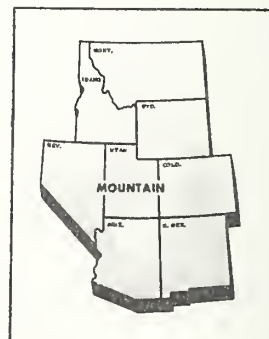
Outstanding farm debt was up over 1968; real estate debt up 6.9 percent and non-real estate debt up 8.2 percent during the first half of 1969. Farm mortgages recorded (i.e., lendings) were down about 1 percent. Demand for non-real estate credit remained strong, but applications for real estate loans declined in the latter part of the year. Interest rates were up 1 to 1-1/2 percent over 1968.

Machinery purchases in this area for 1969 were generally reported as being lower than in 1968. Some areas of South Dakota had poor crops, reflecting dry weather in the central part and hail and army worms in the north-central part.

## MOUNTAIN

### Regional Highlights

|                                                                      | 1968<br>(Million dollars) | 1969   | Change<br>(Percent) |
|----------------------------------------------------------------------|---------------------------|--------|---------------------|
| Cash receipts from farm marketings,<br>total-----                    | 3,366                     | 3,669  | 9.0                 |
| Crops-----                                                           | 1,202                     | 1,247  | 3.7                 |
| Livestock and livestock products-----                                | 2,163                     | 2,422  | 12.0                |
| Market value of farm real estate,<br>March 1-----                    | 15,806                    | 16,164 | 2.3                 |
| Farm real estate debt, Jan. 1-----                                   | 2,455                     | 2,580  | 5.1                 |
| Farm mortgage recordings, Jan.-June                                  | 243                       | 240    | -1.2                |
| Non-real estate farm loans held by<br>reporting lenders, July 1----- | 1,657                     | 1,766  | 6.6                 |



### Outlook for 1970

The demand for non-real estate credit will probably remain strong in 1970, but the demand for real estate credit will be weak. The wheat crop was lower in 1969 and the fall seeded acreage of winter wheat was reported down due to a shortage of topsoil moisture. Spring wheat will probably be sown to replace the planned acreage not sown to winter wheat, but yields on spring wheat are generally less than winter wheat, hence reduced production is possible for 1970.

Farm operators appear to be taking a "wait and see" attitude on investment decisions. What happens in 1970 will partly depend upon

when these operators reach a decision. Machinery purchases will probably be off in this area because of reduced cotton, wheat, and citrus receipts during 1969 and continued high interest rates. Credit will also remain relatively tight, especially for long-term real estate loans.

Operating costs are expected to increase in 1970 but at a slower rate than in 1969. Net farm income should be about the same as 1969, but any deterioration in wheat conditions could lower net farm income for the region.

Interest rates will remain high and credit, especially real estate credit, will remain tight.

### 1969 Financial Conditions

Cash receipts from farm marketings in 1969 were up 9.0 percent over 1968, with livestock marketings up 12.0 percent and crops up 3.7 percent. Livestock marketings account for about two-thirds of total marketings in this region. Some of the important crops in this area were poor, especially cotton and wheat. Cotton production was lower in New Mexico and Arizona. The quality of the product was also poor in many areas. Citrus producers in Arizona were hit by low prices. In Colorado, sugarbeet production was up almost one-third but wet weather, heavy snow, and early freezes reduced the quality and slowed harvest. Onion, potato, and corn producers also were hampered by bad weather. The wheat crop in Montana was about 16 percent lower in 1969 than in 1968. Wheat and cotton producers in this region had the most reduction in farm receipts.

Demand for real estate credit varied throughout the region. In the wheat and cotton areas, demand was lower. In the livestock areas, prices were good and ranch properties were reported as selling at increased prices. Prices of western dryland wheat farms were reported as being down as much as 10-15 percent.

The market value of farm real estate on March 1, 1969, was up 2.3 percent over the same date in 1968. Outstanding farm real estate debt on January 1, 1969, was up 5.1 percent and non-real estate debt up 6.6 percent over 1968. Farm mortgage recordings for January-June 1969 were down 1.2 percent, indicating a slower market in conventional farm mortgages. Contract purchases were reported to have increased. Some lenders reported that the actual reduction was greater than the figures indicated because of occasional time lags between loan application and closing. These lenders reported that pending real estate loan applications were off significantly. These applications will not be reflected in the loan statistics until 1970.



# PACIFIC

## Regional Highlights

|                                                                      | 1968<br>(Million dollars) | 1969   | Change<br>(Percent) |
|----------------------------------------------------------------------|---------------------------|--------|---------------------|
| Cash receipts from farm marketings,<br>total-----                    | 5,600                     | 5,720  | 2.1                 |
| Crops-----                                                           | 3,462                     | 3,398  | -1.8                |
| Livestock and livestock products--                                   | 2,138                     | 2,322  | 8.6                 |
| Market value of farm real estate,<br>March 1-----                    | 25,442                    | 26,368 | 3.6                 |
| Farm real estate debt, Jan. 1-----                                   | 4,205                     | 4,449  | 5.8                 |
| Farm mortgage recordings, Jan.-June                                  | 245                       | 292    | 19.2                |
| Non-real estate farm loans held by<br>reporting lenders, July 1----- | 1,582                     | 1,669  | 5.5                 |



## Outlook for 1970

Overall outlook in the Pacific region for 1970 is one of caution and concern over inflation and the cost-price squeeze.

The demand for credit, especially non-real estate credit, is expected to remain strong and interest rates will continue high. Less mortgage money will be available in 1970. Farm mortgage lendings in the first part of 1970 by the Federal land banks will be less, based on the reduced volume of applications received in the second half of 1969.

Expansion of fruit and nut production is expected for 1970 from the large acreage planted recently in the San Joaquin Valley of California. Respondents expect net farm income to be slightly lower in 1970.

## 1969 Financial Conditions

Total 1969 cash receipts from farm marketings were up 2.1 percent in the Pacific region. Cash receipts from livestock marketings were up 8.6 percent, but crop marketings decreased 1.8 percent.

Higher livestock prices and increased receipts from dairying boosted livestock marketings. Crop production varied. In California, cotton, tomato, and rice production was lower. Most fruit and nut production there was higher, with orange production almost double 1968, but lower prices offset most of the income gain from production. Wheat production in Washington was lower, but apple production increased substantially and pear production and prices were lower for a net downturn. Receipts from wheat marketings were off in Oregon, but milk, greenhouse plant, potato, egg, and pear receipts were up.

Interest rates remained at a high level, but demand for credit remained strong. Farm real estate debt outstanding January 1, 1969, was up 5.8 percent over 1968 and non-real estate debt on July 1, 1969 had increased 5.5 percent.

Farm mortgage recordings during January-June 1969 rose 19.2 percent over the same period in 1968. Applications for new farm mortgage loans, however, reportedly fell off rapidly in the second half of last year.

Land prices held firm in this area, but sales were fewer, especially in the dryland grain areas. The financial condition of the producers in most enterprises except wheat and cotton were fairly good. With reduced production and prices, wheat and cotton farmers had a poor financial year.

## ALASKA

### Regional Highlights

|                                                                   | 1968<br>(Million dollars) | 1969 | Change<br>(Percent)1/ |
|-------------------------------------------------------------------|---------------------------|------|-----------------------|
| Cash receipts from farm marketings, total-----                    | 4.1                       | 3.7  | -9.9                  |
| Crops-----                                                        | 1.2                       | .9   | -21.7                 |
| Livestock and livestock products-----                             | 2.9                       | 2.8  | -5.1                  |
| Farm real estate loans held by reporting lenders, Jan. 1-----     | 2.7                       | 2.3  | -1.8                  |
| Non-real estate farm loans held by reporting lenders, July 1----- | 2.3                       | 2.3  | .7                    |



1/ Calculated from unrounded data.

### Outlook for 1970

The 1970 net farm income for Alaska, including farm and off-farm sources, should approximate the 1969 level. Demand for credit will likely be higher, but the supply of loanable funds will probably not increase resulting in a tighter credit situation.

### 1969 Financial Conditions

Our correspondents indicated the total 1969 income of farmers rose. Off-farm income was sufficiently high to offset the 12-percent drop in cash receipts from farm marketings. High interest rates and tight money in 1969 slowed investments in capital improvements.

For the first 9 months of 1969 the production of milk on farms in Alaska was 13.4 million pounds--1.5 percent below the comparable period of 1968. For the United States as a whole the decrease was 1.2 percent. During November 1969, Alaskan milk production increased nearly 1 percent over the same month of 1968 compared with a slight drop in the total U.S. production. Dairy products account for about 50 percent of Alaska's farm products.

Potatoes represent one of the main vegetable crops in Alaska. A slight drop in the 1969 price of potatoes and reduced marketings accounted for a large portion of the 1969 drop in cash farm receipts. The value of the 1969 production was \$378,000 compared with \$654,000 for 1968.

As of January 1, 1969, the aggregate value of cattle, hogs, sheep, and poultry was about \$3 million, 4 percent higher than a year earlier.

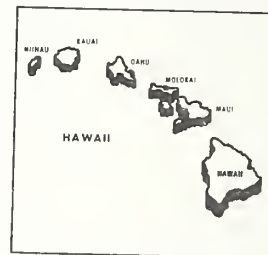
The increase in inventory of these species of livestock for the United States as a whole was 7 percent.

The value of cattle and calves accounted for the entire inventory increase in Alaska. The value of this class of livestock increased nearly 7 percent to \$2 million. The Alaskan inventory value of hogs and chickens as of January 1, 1969, was lower than a year earlier. Chickens with an inventory value of only \$83,000 declined in value by 18 percent from a year earlier.

## HAWAII

### Regional Highlights

|                                                                      | 1968<br>(Million dollars) | 1969  | Change<br>(Percent) |
|----------------------------------------------------------------------|---------------------------|-------|---------------------|
| Cash receipts from farm marketings,<br>total-----                    | 204.5                     | 197.6 | -3.4                |
| Crops-----                                                           | 166.2                     | 156.6 | -5.8                |
| Livestock and livestock products-----                                | 38.3                      | 40.9  | 6.8                 |
| Farm real estate loans held by<br>reporting lenders, Jan. 1-----     | 18.5                      | 18.7  | 1.1                 |
| Non-real estate farm loans held by<br>reporting lenders, July 1----- | 11.7                      | 12.2  | 4.3                 |



### Outlook for 1970

Credit demand in 1970 will increase due to last year's reduced cash receipts from farm marketings. Both interest rates and costs are generally higher in Hawaii than the mainland, and farms generally are either tiny or huge. The tight credit situation will probably affect the small farms more than the large ones.

### 1969 Financial Conditions

Cash receipts from farm marketings were down 3.4 percent in 1969. Crop receipts were off 5.8 percent and livestock marketings were up 6.8 percent. The prices for coffee, lettuce, and snapbeans were lower, but livestock prices were up. Livestock sales constitute only one-fifth of total farm receipts for Hawaii, however, and thus are relatively less important in farm receipts as crops.

Farm mortgage loans outstanding on January 1, 1969 were up slightly and non-real estate loans outstanding on July 1, 1969, were up 4.3 percent.

## PUERTO RICO

### Outlook for 1970

The financial condition of Puerto Rican farmers is expected to improve in 1970 from their relatively poor condition at the end of 1969, according to reports. Farmers look for cash receipts from sales of

coffee, tobacco, and sugarcane to be above levels of the past 2 years. Production of livestock and livestock products should continue upward; prices are expected to be favorable. Rural off-farm income should remain relatively good. However, this will add stress to the already short farm labor situation.

Demand for farm credit this year may slacken some from 1969. The high interest rates and restrictive policies of commercial banks and sugar mills will cause many farmers to defer borrowing for operating or capital purposes until the future looks a little more promising. The Farmers Home Administration and the Production Credit Association expect only moderate increases in operating loan applications.

### 1969 Financial Conditions

The value of agricultural production in 1969 was estimated to be over 5 percent less than in 1968. Returns from the three major cash crops--sugarcane, tobacco, and coffee--declined, due primarily to unfavorable weather conditions. Labor shortages hindered harvesting.

The 1969 sugarcane crop was Puerto Rico's worst in 30 years--sharply reducing income from that source. Coming after the unusually poor crop of the year before made the effects all the more damaging. Tobacco and coffee output were substantially lower than the year before and further reduced farm returns.

Receipts from livestock and livestock products improved over the year earlier. Most of the gain was in milk sales.

Demand for farm credit in Puerto Rico slackened in 1969. Total non-real estate farm debt outstanding June 30, 1969, from banks, the Production Credit Association, and the Farmers Home Administration was \$45 million. A year earlier the amount was \$71 million. Most of the reduction was in loans held by banks. Financing of machinery purchases and farm improvements was active but high prices and interest rates held loans down.

The industrial expansion that has swept Puerto Rico for the last decade continued at a rapid pace. Income from industrial employment by one or more members of some farm families was important in maintaining or improving the level of living on Puerto Rico's farms.



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